

## Germany's labour market continues to cool

The gradual weakening of the German labour market continued in March, suggesting that any recovery in private consumption is still not in sight



The German labour market is weak. Pictured: people in Berlin

In March, German unemployment decreased by 22,100, lowering the unemployment figure to 2.967 million. But don't be mistaken; this is not a sign of strength but rather weakness. It is the weakest March number since the financial crisis. One year ago, unemployment was still 200,000 people lower. Seasonally-adjusted unemployment increased by 26,000, bringing the unemployment rate to 6.3% from 6.2% in February.

### Labour market in soft landing

The German labour market has been in a very gradual soft landing since 2022. While the number of unemployed has increased from 2.2 million in May 2022 to almost 3 million again currently, the number of vacancies has come down since late 2021. The fact that until recently, employment was at record highs can be explained by migration flows. However, the rise in employment has not been enough to prevent the current private consumption slump. Why? A large part of the recent job growth took place in part-time and low-wage jobs.

## Labour market weakening will continue, limiting any upside for private consumption

Looking ahead, the gradual weakening of the labour market looks set to continue. Recruitment plans in both industry and services continue to come down, and the ongoing announcements of potential cost-cutting measures in the automotive and other industries will push up unemployment. This may not happen overnight because of German labour laws, but could be seen gradually over several years. It's important to mention, too, that the number of bankruptcies has been increasing by low double-digit percentages since the summer of 2023. It is easy to see how this trend will also push up unemployment. Today's bankruptcy is tomorrow's unemployment.

On a more positive note, the impact of demographics on the labour market and labour shortages should prevent a sharp worsening. Still, even if the increase in the number of unemployed is gradual, don't forget that the risk of an underlying loss in disposable income and broader economic prosperity is high. It is difficult to imagine an automotive engineer earning the same salary as a barista in a trendy cafe.

Earlier today, the latest GfK index reading suggests that German consumers seem to be focusing more on the cooling labour market than on politics. The confidence boost that German businesses had after the elections and the fiscal U-turn which followed has not been entirely embraced by consumers. Instead, consumer confidence remained broadly unchanged, with an increased willingness to save. Precautionary saving still seems to be the dominant theme among German consumers.

All in all, today's data underline that the project 'making German consumers spend again' will not be an easy one and requires patience and stamina.

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